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Retail Food Sector

Report

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Report Highlights:

Bangladesh's food retail sector is dominated by traditional shops. Nonetheless, it has shown growth and modernization, keeping pace with overall economic growth, the increase in middle-class consumers, and changes in consumption patterns. The organized retail sector, including supermarkets, remains relatively small, but consumes increasing volumes of imported food products and exhibits the fastest growth.

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Table of Contents

Section I: Market Review	3
Status of Retail Market	3
Types of retail shop in Bangladesh	3
Food Market and Consumers' behavior.....	3
Import Market	4
Table 1: Bangladeshi Imports of Processed Food Products in Million Dollars.....	5
Section II: Road Map for Market Entry	5
A: Organized Retail Market.....	5
Entry Strategies.....	5
Market Structure.....	5
Figure: Market Structure (Organized Sector)	6
B: Unorganized Retail Market: Small Provisions Shops/Grocery Shops/Wet Markets	6
Entry Strategies.....	6
Market Structure.....	6
Figure: Market Structure (Unorganized Sector)	7
Section III: Competition	7
Table 2: Market Share in the Organized Retail Sector of Bangladesh	8
Advantages and Challenges Facing US Products in Bangladesh.....	8
Section IV: Best Product Prospect	9
A: Products already present in the market, which have good sales potential	9
B: Products not yet present in significant quantities.....	10
C: Products not present because they face significant barriers	10
Section V: Post Contact and Further Information	10
Appendix I: Breakdown of Cost of Imported Processed Food Products for Retail Sale	11
Appendix II: Some Major Superstores in Dhaka and Chittagong	12

Section I: Market Review

Status of Retail Market

Retail trade is one of the traditional businesses of Bangladesh. Its expansion is keeping pace with population growth and changes in consumption patterns, which are consistent with the growth of the economy. This expansion has not been structurally organized, because, until recently, retailing had never been perceived as an industry, but rather as an individual or family business entity with a very limited scope of organized expansion. Little to no market information is available on the retail sector, but secondary sources indicate that the size of the food retail sector in Bangladesh could be US\$12-14 billion, and the number of retail grocery shops could be around 1 million. Retail is one of the biggest sources of employment (12 percent), and it contributed 13 percent (wholesale and retail trading) to Bangladesh's GDP in 2001/02.

Types of retail shop in Bangladesh

There is a wide variety of retail shops in Bangladesh, ranging from open-air temporary shops to well equipped modern supermarkets. The following classifications may be applied:

1. Roadside shops: These small grocery shops are visible throughout the country and constitute around 75 percent of the retail sector. The floor space ranges between 30 and 100 sq. feet. Most village markets are in this category. No imported food items are available in these shops except some low-quality products from India, especially in border-adjacent areas.
2. Municipal Corporation Markets: Shops in the municipal corporation markets are arranged according to the kind of commodity they carry, such as, fish, meat, vegetables, fruits, and groceries. These shops appear in the semi-urban and urban areas. Imported foods and processed food items are available, but limited to those purchased by the middle class. This category represents about 20 percent of the food retail sector.
3. Convenience Stores: These are located mostly in well-to-do urban areas. The customers are upper-middle to upper-class locals and foreigners. These stores are major outlets for imported food items and high quality local products, and represent about 5 percent of the retail sector.
4. Supermarkets: These are the most recent additions to the retail sector in Bangladesh and began appearing less than 5 years ago. With the success of the pioneer supermarkets, this type of store has already attracted the interest of investors, and new outlets are coming into operation quickly. To date, there are about 30 stores of this kind operating in the country, of which 22 are located in Dhaka. They make up less than one percent of the retail sector.

Food Market and Consumers' behavior

Bangladesh is predominantly a traditional, poor society, where about 90 percent of the population is Muslim; other groups represented are Hindu, Christian, Buddhist, and other minorities. Per-capita income is about US\$380. Dhaka, the capital, has 10 million out of the country's 129 million people (2001 census), with 34 percent of the population living below the poverty line. Rural people generally do not consume processed foods. The size of the urban population is 29 million people. The Statistical Year Book 2000 indicates that about 22 percent of them, regarded as upper middle class and above, have average

household incomes of US\$3,254, or a per capita annual income of more than US\$542. This category of people (6 million in 2001) is growing in size along with the economy.

Roughly 45 percent of household consumption expenditures in urban areas is on food and beverage items, mostly for basic food necessities like grains (90 percent of which is rice), pulses, vegetables, vegetable oils, salt, fish, meat, and sugar. Due to the very strong preference of buying fresh food (generally daily), and wholly cooking it at home, the proportion of processed food in the daily meal is still quite negligible. However, with urbanization, decreasing family sizes, and the spread of education and employment among women, a major change in food habits among the educated middle-to upper-class population has become evident. They are increasingly consuming processed food items like sauces/ketchup, jam, jelly, noodles/pasta/macaronis, soft drinks/fruit juice, etc. The local production of processed foods has rapidly increased during the 1990's. Simultaneously, abundant availability of these food items imported from many countries including the United States, with no quantitative restrictions but at moderately high tariffs, also contributed to this change. The basis of a processed food market has been established. Supermarkets are gaining in popularity, as consumers attach more and more importance to appearance, ambience, comfort, and the availability of a vast range of products.

Bangladeshis are not vegetarian and consume a lot of chicken, beef, mutton, and fish. Except for chicken, the local production capacities of other animal proteins are diminishing. Large quantities of fresh fish are being imported from India, Burma, and Thailand. This Muslim- dominated society is unlikely to consume imported meat unless it is guaranteed 'Halal'. This limits large-scale imports of meat, except that targeted at the non-Muslim population, which are mostly foreigners.

Import Market

The Bangladeshi market has been relatively open for processed and semi-processed food products and fresh fruits; these are, however, classified as luxury items by the Government of Bangladesh (GOB). Requirements include compulsory labeling on each packet, with origin, date of production, and date of expiry (best-before date), phytosanitary clearance, and in some cases, a radiation-free declaration (example: potatoes). Import duties on processed food products and fresh fruits are generally not very high, but the GOB sometimes imposes supplementary duties. Other duties include the value-added tax (VAT), currently at 15 percent, the advance income tax, and the development surcharge. Combined, these amount to a duty of 35 to 65 percent on imported food items and fresh fruits. For alcoholic beverages, however, the duties reach about 300 percent. Reports of under-invoicing are common. An imported food item costs approximately 3.5 times its FOB cost once it reaches its final consumer (see Appendix I). Logistical constraints include the scarcity of refrigerated transportation and warehousing facilities, inefficient port facilities, and uncertainty due to political unrest. The economic advantages of large-scale importing are therefore difficult to realize for fear of significant spoilage. To minimize risks, most importers procure processed food items (including US products) from consolidators in Singapore or Dubai. Most importers are located in Dhaka and Chittagong (a major port city).

Despite these hurdles, the demand for imported food products is growing quickly. Statistics show that Bangladeshis spent US\$162 million on imported processed food items in 2001/02 (US share US\$13 million, 8 percent), down 20 percent from US\$203 million in 2000/01 (US share US\$8 million, 4 percent) (see Table 1).

Table 1: Bangladeshi Imports of Processed Food Products in Million Dollars

Sources	1999/00	2000/01	2001/2
All Countries	139.58	202.78	162.28
USA	5.29	8.04	13.02

Source: Bangladesh Bank

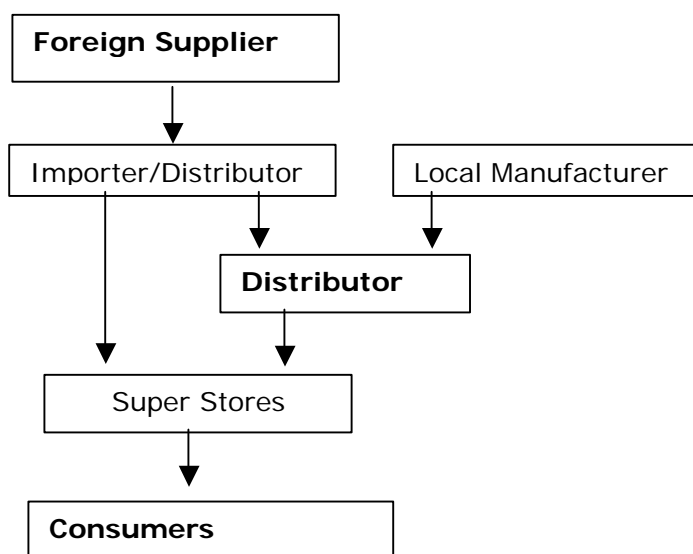
Section II: Road Map for Market Entry**A: Organized Retail Market****Entry Strategies**

Suppliers of US processed foodstuffs and fresh agricultural commodities should consider the following strategies to enter Bangladesh's organized retail market:

- Appoint a local importer or distributor as agent or representative to introduce products and to develop market demand among potential consumers.
- Contact FAS/Dhaka for assistance (to the extent practicable) in selecting a legitimate local importer or distributor. Visiting the country to meet a few of them may help in developing a clear picture of the market, importers/distributors, and retailers.
- Provide assistance to the designated representative in order to promote the product(s) through market surveys, participation in trade fairs, trade shows and other promotional events, and media advertisements.
- Adopt an attractive pricing policy, taking competitors' strategies and consumers' price sensitivity into account.
- Send product samples and company/product catalogs to FAS/Dhaka for display in the Embassy's trade promotion events.
- If applicable, the regional distributor in Dubai or Singapore may be utilized to coordinate the marketing activities of the designated local agent.

Market Structure

Organized retail outlets are relatively few and remain concentrated in the major cities, but they do sell imported products. The off-take by consumers is limited (less than 5 percent of total food consumption comes from these outlets). They usually procure their products from importers or distributors for imported items, and from distributors or suppliers for the local products. Organized sector retailers normally maintain established supply lines (drawing from establishments with storage capacity) for imported products, and access both established and casual supply lines ("once-in-awhile" suppliers with no storage) for local products. Depending on the size of the outlets, they engage 200 to 400 distributors or sub-distributors (dealers) for consistent availability of their commodities. Most importers source their goods in mixed containers from the country of origins or from consolidators in Dubai or Singapore, except those that arrive in high volumes, like fresh fruits.

Figure: Market Structure (Organized Sector)

Included in this category of food retailer are three relatively large supermarkets, around 30 medium-sized super stores, and 200-250 other convenience stores located in the posh areas of Dhaka and other big cities. The share of imported food products currently handled by these outlets is very small, and items include fruit juice (both powdered or liquid); canned fruits, vegetables, and fish/meat; jam/jelly; sauce/ketchup; edible oil; dry milk powder; salad dressings; spaghetti/vermicelli; olive oil; coffee; fresh fruits; and chocolates, biscuits, and cookies. The biggest constraint facing this sector is the extreme scarcity of space in the appropriate areas: land is almost unavailable and is very costly. See Appendix II for a list of supermarkets and superstores presently operating in Dhaka and Chittagong.

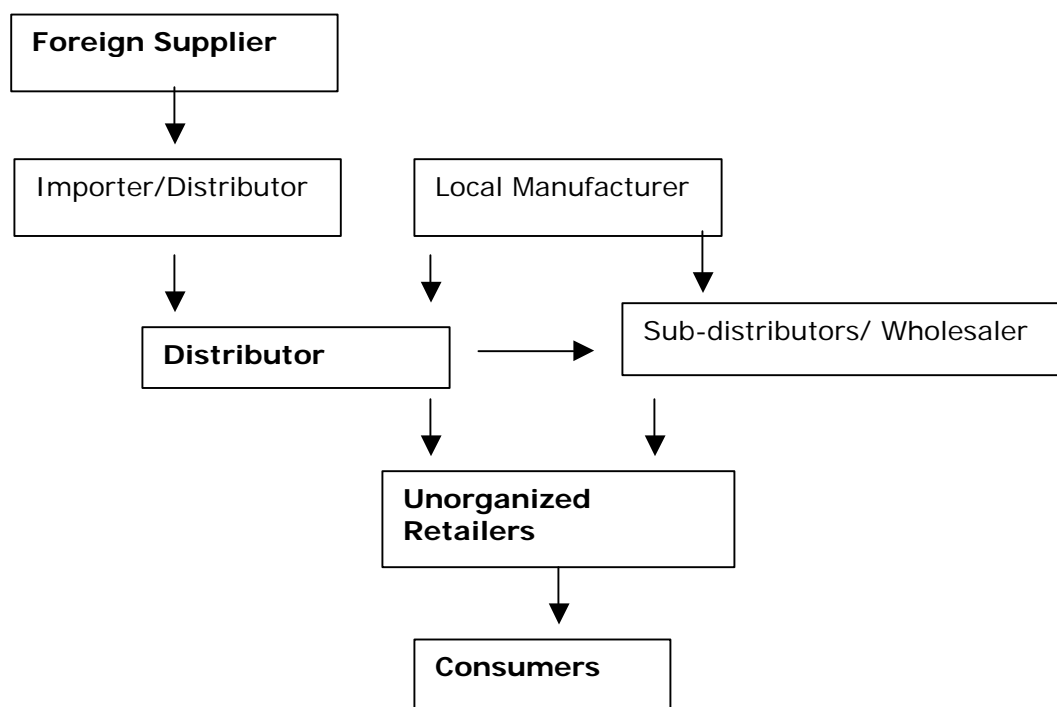
B: Unorganized Retail Market: Small Provisions Shops/Grocery Shops/Wet Markets

Entry Strategies

Many of the same importers and distributors that supply the organized market also supply processed food items and fresh fruits to the unorganized and traditional retail markets; subsequently, the strategy for entering the unorganized market remains the same as that for the organized market.

Market Structure

This market segment constitutes 95 percent of the retail sector in Bangladesh. Retailing of imported food items in this market is very limited, except those medium- or low-quality items that are brought in, sometime through illegal channels, from Bhutan, India, Myanmar, and Thailand. Fresh fruits from all sources are available in this sector. Limited selection, lack of refrigeration, bargaining, early-morning to late-night hours, and no ambience characterize this market. This is the preferred market for about 80 percent of the urban population and all of the rural population, as it is considered the best source for the freshest food, especially vegetables, fish, meat, and fruits.

Figure: Market Structure (Unorganized Sector)

Section III: Competition

A major portion of imports comes from Singapore and Dubai in mixed containers and is therefore not recorded by their original country of origin. It is nonetheless clear that many countries are present in the Bangladeshi food retail market, and that the United States is one of them. Success in selling imported products depends on relative prices, consistent availability, marketing strategies, and the familiarities of products to consumers. Countries like India, Bhutan, Nepal, Thailand, and Malaysia are supplying products well-suited to and demanded by middle- to upper-class consumers, such as jam/jelly, sauce/ketchup, pickles, edible oil, fresh fruits, etc. These countries' market shares, in terms of volume, are relatively higher than those of Australia, the United States, China, Italy, and the United Kingdom, who supply mainly products such as fruit juice (concentrates or powders), energy drinks (powders), dry milk powders, salad dressings, fresh and dried fruits, spaghetti/vermicelli, olive oil, and coffee. Their main customer is the foreign population living in the country, tourists, and the middle-and upper-class population. This indicates that the products from the former countries do not compete directly with those from the latter group, but US products do have to be competitive with their European and Australian competition to improve market share. Australia, Thailand, and Malaysia have all conducted effective market promotion activities. Australia, New Zealand, Denmark, and the United Kingdom have established processed food production units (joint ventures) in Bangladesh for dairy products. China and Australia are active in the fresh fruit sector, and conduct trade delegation visits, short duration in-store promotions, participation in trade fairs, trade servicing, and food showcasing. Australia opened a store (Value Plus), which sells exclusively Australian products.

A preliminary assessment of the retail food market, shown in Table 2, indicates that at the top end of the market 49.6 percent of the food products are locally produced. In quantity-terms, Australia, Malaysia, the United States, Thailand, and the United Arab Emirates are the top food item exporters to Bangladesh. Interestingly, Table 2 also indicates that in value terms, Bangladesh holds only 18 percent of the market, while the top five foreign shareholders are Australia, Netherlands, Denmark, Thailand, and Switzerland.

Table 2: Market Share in the Organized Retail Sector of Bangladesh

Share in Terms of Volume		Share in Terms of Value	
Country	Percent	Country	Percent
Bangladesh	49.60	Bangladesh	18.05
Australia	7.60	Australia	10.95
Malaysia	4.81	Netherlands	10.79
USA	4.33	Denmark	8.37
Thailand	4.31	Thailand	8.13
Dubai	3.78	Switzerland	7.19
New Zealand	3.35	New Zealand	6.49
Netherlands	3.29	Malaysia	4.53
Denmark	3.20	USA	4.47
Switzerland	2.46	Dubai	3.96
Singapore	1.96	Singapore	2.03
Saudi Arabia	1.52	Bhutan	1.88
Oman	1.28	Malta	1.76
Pakistan	1.22	India	1.37
Bhutan	1.14	Italy	1.25
Italy	1.14	England	1.21
India	0.54	Saudi Arabia	1.15
South Africa	0.51	Unknown	1.02
Others	3.99	Others	5.40
All Countries	100.00	All Countries	100.00

Source: Post Market Survey, 2003

Advantages and Challenges Facing US Products in Bangladesh

Advantages

1. Growing health awareness is making consumers more quality conscious, and imported food items are considered high quality.
2. US products are renowned for their quality.
3. Fast growing urban retail sector is capable of marketing an increased volume of branded US products.
4. Rapid urbanization and the growing number of women in the workforce spur the demand for processed food items, while the supply of good quality local products is limited.
5. A growing middle class, around 10-12 million people, can increasingly afford to purchase imported food products.
6. Bangladeshi import policies have exposed the Bangladesh retail market to the international suppliers.

7. A large number of foreigners in Dhaka and other metropolitan areas are a willing audience for imported fresh and processed food items.
8. The expanding fast food and restaurant sector requires high-quality imported food and ingredient products.

Challenges

1. As a Muslim-dominated country, most consumers want imported products free from *haram* (prohibited) ingredients (pork, alcohol, and *non-halal* beef, chicken, and mutton).
2. US products are higher priced than those from competitors.
3. Importers, retailers, and consumers lack brand awareness.
4. Competition from Europe, Australia, and other Asian neighbors is very strong, due to their closer geographic proximity to Bangladesh.
5. The vast majority of the population prefers fresh food items that are cooked at home.
6. Imported products are costlier due to tariffs and corruption.
7. The political and law-and-order situations are unstable and unpredictable. The GOB's tariff policy lacks consistency due to politicians' protecting their own business interests.
8. Rapidly growing local capacity, including that of multinationals, to produce larger varieties of branded items that are of better quality and more competitively priced.

Section IV: Best Product Prospect

A: Products already present in the market, which have good sales potential

Products	Selection Criterion
Fruit Juice/Jams/Jellies	Increasing popularity of imported products.
Sauces, spreads, salad dressings, and vegetable oils	Shortage of local supply and increasing popularity of these items due to changes in food habits.
Chips, noodles, pasta, macaroni & vermicelli	Increasing popularity of imported products and changes in food habits.
Fresh fruits (apples and table grapes)	Shortage of local supply and popularity of exotic fruits.
Dry milk, milk products, and energy drinks	Shortage of local supply and increasing health awareness among potential consumers.

B: Products not yet present in significant quantities

Products	Selection Criterion
Biscuits/Cookies/Chocolates	Increasing popularity of imported products.
Breakfast cereal	Shortage of local supply and increasing popularity of these items due to changes in food habits.
Tinned/canned fruits, vegetable, fish, etc.	Shortage of local supply and increasing popularity of these items due to changes in food habits.
Health and diabetic foods	Shortage of local supply and increasing health awareness among wealthier niche consumers.

C: Products not present because they face significant barriers

The GOB generally considers imported processed food products and fresh fruit as luxury items, and tries to discourage imports by imposing high supplementary duties. As a Muslim-dominated country, imported beef, mutton, and chicken from western countries are generally not welcome, and consumption of pork by Muslims is strictly prohibited on account of religious considerations. There are, however, no legal restrictions to import these items. Imports of alcoholic beverages are severely constrained by high import tariffs, sales taxes, and a complex licensing system for both distribution and consumption.

Section V: Post Contact and Further Information

For any queries regarding this report and for assistance exporting food items to Bangladesh, please contact FAS/USDA, US Embassy Dhaka, or the Office of the Agricultural Affairs, US Embassy New Delhi, at the following addressees:

FAS/USDA, US Embassy Dhaka, Bangladesh

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The Country Commercial Guide, prepared by the Commercial Section of the US Embassy, Dhaka, is also a useful guide to US companies wishing to export to Bangladesh. This report can be accessed through the US Embassy's web site at www.usembassy-dhaka.org

Appendix I: Breakdown of Cost of Imported Processed Food Products for Retail Sale

Items	Rate	Dhaka Market
A. FOB Value		\$1.00
Freight (20' container - ICD Dhaka)	Actual	0.10
B. C&F (Cost and Freight)¹	-	\$1.10
Insurance	1% of B	0.01
Landing Charge	1% of B	0.01
C. CDVAT Assessable Value		\$1.12
Import duty (ID)	30% of C	0.34
Supplementary Duty (SD)	40% of (C+ID)	0.58
Value Added Tax (VAT)	15% of (C+ID+SD)	0.31
Advance Income Tax (AIT)	2.5% of C	0.03
Infrastructural Devt. Surcharge (IDSC)	3% of C	0.03
Other Charges (Shipping agent and port) ² (OC)	US\$860/Container	0.03
D. Total Landing cost of the importer at Dhaka (C+ID+SD+VAT+AIT+IDSC+OC)		\$2.44
Importer's Margin ³	10% of D	0.24
E. Invoice price of the Importer for the Distributor		\$2.68
Sales Tax	5% of E	0.13
F. Distributor's Cost Price		\$2.82
Distributor's Margin ⁴	10% of F	0.28
G. Distributor's Sales Price to Retailer		\$3.10
Retailer's Margin ⁵	15% of G	0.47
H. Retail Price		\$3.57

Sources: Homebound Packers and Shippers Limited (C&F agent) and importers/Distributors.

Note: Calculation based on the assumption FOB value of \$25,000 for a 20ft container

¹: Imports are made mostly on C & F basis not on CIF basis as per the import policy

²: Service Charge and Receptacle charges payable to shipping agent and port authority

³: margin can vary from 8- 12%.

⁴: margin can vary from 8- 12%.

⁵: margin can vary from 10-20%.

Appendix II: Some Major Superstores in Dhaka and Chittagong

Retailer Name	Ownership	No. of Outlets	Location	Supplying Agents
AGORA Rahimafrooz Superstores	Private Limited.	2	Dhanmondi & Gulshan, Dhaka	Importer/distributors/Local companies.
Nandan Food and Bev. Ind. Ltd.	Joint-venture	1	Gulshan, Dhaka	Importer/distributors/Local companies.
Dhali Super Store	Private Limited.	1	Gulshan, Dhaka	Importer/distributors/Local companies.
PQS	Private Limited.	2	Uttara & Shantinagar	Importer/distributors/Local companies.
Meena Bazar	Private Limited.	1	Dhanmondi, Dhaka	Importer/distributors/Local companies.
Family Needs	Private Limited.	1	Uttara, Dhaka	Importer/distributors/Local companies.
Fortune City	Private Limited.	1	Uttara, Dhaka	Importer/distributors/Local companies.
Shop n' Save	Private Limited.	1	Uttara, Dhaka	Importer/distributors/Local companies.
Stop N Shop	Private Limited.	1	Dhanmondi, Dhaka	Importer/distributors/Local companies.
Pick & Pay Superstore	Private Limited.	1	Banani, Dhaka	Importer/distributors/Local companies.
Super Fresh	Private Limited.	1	Banani, Dhaka	Importer/distributors/Local companies.
Value Plus	Australian	1	Dhanmondi, Dhaka	Importers
Ettadi General Store	Private Limited.	1	Uttara, Dhaka	Importer/distributors/Local companies.
H. N. P Family Mart	Private Limited.	1	Gulshan, Dhaka	Importer/distributors/Local companies.
One Stop Mall	Private Limited.	1	Banani, Dhaka	Importer/distributors/Local companies.
Gulshan General Store	Private Limited.	1	Gulshan, Dhaka	Importer/distributors/Local companies.
OHIBA General Store	Private Limited.	1	Dhanmondi, Dhaka	Importer/distributors/Local companies.
Rajanigandha	Private Limited.	1	Banani, Dhaka	Importer/distributors/Local companies.
Rajeshwarey	Private Limited.	1	Chittagong	Importer/distributors/Local companies.
Park N Shop	Private Limited.	1	Chittagong	Importer/distributors/Local companies.
Santha Monika	Private Limited.	1	Chittagong	Importer/distributors/Local companies.
Shomabesh Store	Private Limited.	1	Chittagong	Importer/distributors/Local companies.
Chandrika (Pvt) Ltd.	Private Limited.	1	Chittagong	Importer/distributors/Local companies.